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## **Some Unpleasant Implications for Unemployment Targeters**

April 17, 2013

St. Louis Fed President James Bullard discussed whether the FOMC should "put more weight" on unemployment in its decision-making process at the 22nd Annual Hyman P. Minsky Conference, New York, N.Y.

[Presentation (pdf)]([https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard\\_nyminsky\\_2013\\_final.pdf](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard_nyminsky_2013_final.pdf)) | [Press Release](<https://www.stlouisfed.org/news-releases/2013/04/17/st-louis-feds-bullard-discusses-whether-the-fed-should-put-more-weight-on-unemployment>)

Related News Articles:

- [Fed's Bullard Opposes Putting More Weight on High Unemployment](<http://www.bloomberg.com/news/2013-04-17/fed-s-bullard-opposes-putting-more-weight-on-high-unemployment.html>), by Steve Matthews and Joshua Zumbrun, Bloomberg.
- [Fed's Bullard Says Low Inflation Could Require More Stimulus](<http://www.bloomberg.com/news/2013-04-17/fed-s-bullard-says-low-inflation-could-require-more-stimulus.html>), by Steve Matthews and Joshua Zumbrun, Bloomberg.
- [The Fed's Bullard thinks inflation is dangerously low](<http://economy.money.cnn.com/2013/04/17/the-feds-bullard-thinks-inflation-is-dangerously-low/>), by Annalyn Kurtz, CNN Money.
- [Fed's Bullard: Softer Inflation May Lead to Boosted Bond Buying](<http://blogs.wsj.com/economics/2013/04/17/bullard-says-fed-is-limited-in-its-ability-to-affect-labor-markets/?KEYWORDS=bullard>), by Michael S. Derby, Dow Jones.
- [Fed's Bullard Says He's Ready To Increase QE As Inflation Is 'Too

Low,'](http://www.forbes.com/sites/afontavecchia/2013/04/17/feds-bullard-says-hes-ready-to-increase-qe-as-inflation-is-too-low/)Forbes.

- [Fed's Bullard concerned about low inflation; Comments](http://www.marketwatch.com/story/feds-bullards-concerned-about-low-inflation-2013-04-17), by Greg Robb, MarketWatch.
- [Fed should not emphasize labor market: Bullard](http://www.marketwatch.com/story/fed-should-not-emphasize-labor-market-bullard-2013-04-17), by Greg Robb, MarketWatch.
- [St Louis Fed's Bullard: Ready to Up QE3 if Infl Conts to Fall](https://mninews.marketnews.com/content/st-louis-feds-bullard-ready-qe3-if-infl-contrs-fall), by Brai Odion-Esene, Market News International.
- [Fed's Bullard: Jobs Focus Over Infl May Be Counter Productive](https://mninews.marketnews.com/content/feds-bullard-jobs-focus-over-infl-may-be-counter-productive), by Brai Odion-Esene, Market News International.
- [If U.S. inflation keeps falling, buy more bonds-Fed's Bullard](http://www.reuters.com/article/2013/04/17/usa-fed-bullard-idUSL2N0D40TY20130417), by Leah Schnurr and Jonathan Spicer, Reuters.
- [Fed's Bullard emphasizes inflation, not unemployment](http://www.bizjournals.com/stlouis/blog/2013/04/feds-bullard-emphasizes-inflation.html), by Greg Edwards, St. Louis Business Journal.
- [Can monetary policy create jobs?](http://www.washingtonpost.com/blogs/wonkblog/wp/2013/04/17/can-monetary-policy-create-jobs/)by Ylan Q. Mui, Washington Post.

### **St. Louis Fed's Bullard Discusses Whether the Fed Should "Put More Weight" on Unemployment**

NEW YORK – Federal Reserve Bank of St. Louis President James Bullard gave remarks Wednesday on [“Some Unpleasant Implications for Unemployment Targeters”](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard\_nyminsky\_2013\_final.pdf)at the 22nd Annual Hyman P. Minsky Conference.

During his presentation, Bullard noted that the U.S. unemployment rate

remains high by historical standards and that it has declined about 0.7 percentage points per year from its post-recession peak level. “At this pace, the unemployment rate will be in the low 7 percent range by the end of 2013,” he said.

Given this current high level of unemployment, some have suggested that the Federal Open Market Committee (FOMC) should “put more weight” on unemployment in its decision-making process, Bullard said. “However, frontline research suggests that ‘price stability’ remains the policy advice even in the face of serious labor market inefficiencies.” In Bullard’s view, the results from this recent research, by economists Federico Ravenna and Carl Walsh, should be considered as an important benchmark for contemporary monetary policy.

### Price Stability

Bullard noted that the New Keynesian macroeconomics literature has been extraordinarily influential in monetary policy. The standard policy advice from this literature is “price stability,” he said, explaining that “practically speaking, this means ‘focus on keeping inflation close to target.’”

Technically, Bullard said, the policy advice is to maintain a price level path that is consistent with the inflation target. The FOMC has maintained such a price level path since 1995, which he has discussed previously. (See, for example, Bullard’s speech on Sept. 20, 2012, [“A Singular Achievement of Recent Monetary Policy.”](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardnotredame20september2012final.pdf>))

Thus, actual FOMC monetary policy during the past 18 years seems to have mimicked the policy advice from the New Keynesian literature. However, Bullard noted that the standard model does not include unemployment. In light of today’s high level of unemployment, he said that the main question is whether the FOMC should adopt a policy rule that “puts more weight” on this variable.

### Unemployment

To determine how the policy advice changes when unemployment is included in the model, Bullard examined recent research by Ravenna and Walsh. In a 2011 paper 1, they found that “the optimal policy is still very close to price stability, even with unemployment explicitly in the model,” Bullard said. That is, the policymaker should still “keep inflation as close to target as is practicable,” he explained. “Expressed as a Taylor-type rule, it would mean putting almost all the weight on the inflation term.”

Furthermore, the authors suggest that deviating from this policy can lead to substantially worse outcomes for households, Bullard said. “The idea that the Fed should ‘put more weight’ on unemployment does not fare well in this analysis. Such an approach may be highly counter-productive,” he stated.

In a 2012 paper 2, Ravenna and Walsh asked why price stability remains close to optimal. “Attempts to address the various labor market inefficiencies solely with monetary policy do not work very well because improvements on one dimension are simultaneously detriments on other dimensions,” Bullard said, which means that other policy tools are needed.

“The essential finding is that monetary policy alone cannot effectively address multiple labor market inefficiencies, and so one must turn to more direct labor market policies to address those problems,” Bullard said.

1Ravenna, Federico and Walsh, Carl E. “Welfare-Based Optimal Monetary Policy with Unemployment and Sticky Prices: A Linear-Quadratic Framework.” *American Economic Journal: Macroeconomics*, April 2011, 3(2), pp. 130-62.

2Ravenna, Federico and Walsh, Carl E. “Monetary Policy and Labor Market Frictions: A Tax Interpretation.” *Journal of Monetary Economics*, March 2012, 59(2), pp. 180-95.

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